



# Public Service Commission of Wisconsin

Daniel R. Ebert, Chairperson  
Robert M. Garvin, Commissioner  
Mark Meyer, Commissioner

610 North Whitney Way  
P.O. Box 7854  
Madison, WI 53707-7854

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Contact: Linda Barth or Amanda Riddell  
(608) 266-9600

## Increased Natural Gas and Infrastructure Costs Influence WPSC Rates

MADISON - Today, the Public Service Commission of Wisconsin (PSC) reviewed Wisconsin Public Service Corporation's (WPSC) request to increase electric and gas rates. Increased fuel costs and investments in infrastructure to meet growing energy needs were major factors driving the request.

In a verbal decision, the Commission found that most of the rate increase was due to the increased cost of fuels, especially natural gas and costs for construction of new power plants:

- 72 percent of the rate increase is directly related to run-away wholesale natural gas prices, which are not regulated
- 26 percent of the rate increase is related to construction costs for the Weston 4 power plant to meet growing energy demands

Natural gas prices have increased dramatically over the past few years and have spiked recently. Under federal law, natural gas is an unregulated commodity and utilities largely pass fuel costs directly through to their customers. The Commission noted that in November 2004 natural gas prices were \$6.67 per decatherm and in November this year the price hit \$11.31 per decatherm, nearly doubling during the time the PSC reviewed WPSC's rate request.

Helping to offset the high natural gas prices, today the Commission required WPSC to return \$108 million to ratepayers over the next two years in decommissioning funds from the sale of the Kewaunee Nuclear Power Plant. In March 2005, the Commission approved the sale of the Kewaunee Nuclear Power Plant, but stipulated that the decommissioning funds were to be refunded to the ratepayers in a timely manner.

The Commission took other steps to help ratepayers today:

- The Commission set a return on equity for WPSC shareholders of 11 percent, lower than proposed by the utility.
- The Commission required WPSC shareholders to pick up half of the \$12.5 million loss on the sale of the Kewaunee Nuclear Power Plant

- The Commission denied rate recovery of \$7.7 million for replacement power caused by a 2004 outage at the Kewaunee Nuclear Power Plant because WPSC earned over the authorized rate of return that year.
- The Commission decided to allow WPSC to come back for fuel adjustments in the future if its fuel costs are over 2 percent of its predicted amount while also requiring rate reductions if fuel costs are just 0.5 percent less than estimated. This decision allows the Commission to decrease rates more quickly when fuel costs go down, than under current rules.
- The Commission called on WPSC to work collaboratively with advocates and the PSC to develop cost-effective and common-sense improvements to its renewable energy program.

In today's decision, the Commission set overall electric rates for WPSC to increase by an estimated 9.9 percent. Fuel costs and costs to build the Weston 4 power plant near Wausau account for most of the \$79 million increase allowed by the Commission. In addition, the Commission approved an estimated \$7 million or 1.0 percent increase in gas rates.

The Commission decided that residential rate increases should be less than the overall increase for all customers. Under today's decision, the average residential WPSC customer will see a monthly increase of approximately \$6.50 for electric service and 75 cents for gas service.

When a utility requests a change in rates, the PSC conducts a thorough audit of the utility's forecasted expenses and revenues. The agency looked at the amount WPSC needs to provide a reliable source of energy to customers, which includes costs for maintenance, new construction, fuels, environmental protection and employee wages.

WPSC filed its application for a rate increase in April 2005 and updated its request in October. Public hearings were held in October in Madison and Green Bay. The testimony provided at the hearings was part of the record the Commission reviewed as it considered all the aspects of the application.

The Commission will issue a written order to finalize the rates approved in today's decision. The new rates become effective after the written order is issued, but not before January 1, 2006.

The documents associated with WPSC's application can be viewed on our Electronic Regulatory Filing System at <http://psc.wi.gov/>. Type case number 6690-UR-117 in the boxes provided on the PSC homepage or click on Electronic Regulatory Filing System button.

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